United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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Opening Statement of Chairman Christopher J. Dodd

"Turmoil in U.S. Credit Markets: Recent Actions Regarding Government Sponsored Entities, Investment Banks and Other Financial Institutions"

Remarks as Prepared:

The Committee will please come to order. We gather this morning at an extraordinary and perilous moment in our nation's history. The landscape of our nation's economy has been radically re-shaped by the United States government over the course of just a few days and in a totally ad hoc manner. Companies that form the foundation of our financial markets are shrinking and disappearing practically overnight. Their insatiable appetite for risk has permeated all sectors of the financial services industry, and has spread beyond our shores. It has felled giants like Bear Stearns and Lehman Brothers; brought others to their knees like Merrill Lynch, A.I.G., Fannie Mae, and Freddie Mac; prompted the largest thrift failure in our history – IndyMac Bank; and eliminated the final two independent investment banks – Morgan Stanley and Goldman Sachs.

These drastic changes have reverberated far beyond the trading floors and board rooms of corporate America. Across our great nation, families are gathering around their kitchen tables each night asking how they will weather this storm. Hundreds of billions of dollars that Americans invested in retirement accounts and mutual funds have evaporated. Homeowners are watching the value of their homes plummet. Foreclosures are forcing 9,800 families from their homes each day. Families worry about how they will afford groceries and gas. 600,000 Americans have lost their jobs, while millions more have watched their paychecks shrink and their benefits wither away. Perhaps the most dangerous consequence of this economic maelstrom is that our collective confidence in our nation's future has been badly shaken.

Less than six months ago, our Committee held a hearing in this very room on what at the time seemed an inconceivable event – the government's 30 billion dollar intervention in the sale of Bear Stearns to JP Morgan. Now – after spending hundreds of billions more to prop up, bail out, and wind down a multitude of institutions – the U.S. government effectively runs, supports, or outright owns vast swaths of the financial sector.

American taxpayers deserve to know how we arrived at this moment, and how the architects of this new economic landscape will put us back on sound financial footing and restore American confidence and optimism.

The root cause of our economic crisis is the collapse of our housing market, triggered by what Treasury Secretary Paulson himself has called "bad lending practices." These are practices that no sensible banker should have engaged in. Reckless, careless, and sometimes unscrupulous actors in the mortgage lending industry allowed loans to be made that they knew hard-working, law-abiding borrowers would not be able to re-pay.

Financial regulators acted much too late and far too timidly. They failed to enforce the laws that Congress passed requiring them to prohibit these bad lending practices.

The ensuing calamity was entirely both foreseeable and preventable. This was no act of God; it was no Hurricane Ike. It was created by a combustible combination of private greed and public regulatory neglect.

Now we must confront the present crisis.

Barely 72 hours ago, Secretary Paulson presented a proposal that he believes is urgently needed to protect our economy. This proposal is stunning and unprecedented in its scope and lack of detail. It would allow him to intervene in the economy by purchasing at least $700 billion of toxic assets. It would allow him to hold onto those assets for years, and to pay millions of dollars to hand-picked firms to manage those assets. It would do nothing to help even a single family save a home. It would do nothing to stop even a single CEO from dumping billions of dollars of toxic assets on the backs of taxpayers – and walking away with a bonus and a golden parachute. And it would allow him to act with utter and absolute impunity – without review by any agency or court of law. After reading this proposal, I can only conclude that it is not just our economy that is at risk, Mr. Secretary, but our Constitution, as well.

Nevertheless, in our efforts to restore financial security to American families and stability to our markets, this Committee has a responsibility to examine this proposal carefully and in a timely manner.

In my view, any plan to address this crisis must embody three principles. First, American taxpayers must have some assurance that their hard-earned money is being used correctly and responsibly. Second, we must put in place proper oversight so that the executors of this plan are accountable and their actions transparent. Finally, we must address the root cause of this crisis by putting an end to the rising number of foreclosures sweeping across the nation.

In the longer term, it is clear that our current economic circumstances demand that we rethink, reform, and modernize supervision of the financial services industry. Certain basic principles should form the foundation for reform.

We need a leader in the White House who will ensure that regulators are strong cops on the beat, and do not turn a blind eye to reckless lending practices.

We need to remove incentives for regulators to compete against each other for bank and thrift "clients" by weakening regulation.

We need to ensure that all institutions that pose a risk to our financial system and taxpayers are carefully and sensibly supervised.

And we need to accept the premise that consumer protection and economic growth are not in conflict, but inextricably linked. If we learn nothing else from this crisis, it is that the failure to protect consumers can cause the collapse of our largest financial institutions, the loss of hundreds of thousands of jobs, and the draining of hundreds of billions of dollars of wealth from hardworking Americans.

Today, we are fortunate to be joined by Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke, SEC Chairman Chris Cox, and the Director of the Federal Housing Finance Agency, James Lockhart. Regardless of how some of us may feel about the decisions these leaders have made and the impact that they have had, we all ought to be able to agree that these four individuals are good, talented and experienced people who are doing their best for our country and acting in the interest of the American people. I thank them for their continued service to our country during these extraordinarily difficult times.

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